

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

NOTICE OF THE UNITED STATES POSTAL SERVICE OF  
FILING OF REVISED ANNUAL COMPLIANCE REPORT PAGES -- ERRATA  
(January 25, 2017)

The Postal Service hereby gives notice of filing of revised versions of pages 12-13, 61, and 64 of the FY 2016 Annual Compliance Report, originally filed on December 29, 2016. The relatively minor changes are discussed below, and changes in figures in tables are highlighted in gray on the attached revised pages.

First, the changes on pages 12 and 13 relate to changes in the allocation of costs primarily within Inbound Letter Post between pieces coming from Target Countries and pieces coming from Transition Countries. In the original ACR, these pages indicated that pieces from Target Countries (at UPU rates) covered their costs in FY 2016, while pieces from Transition Countries (at UPU rates) did not cover their costs. After revisions to the ICRA folder (USPS-FY16-NP2) were submitted on January 19, 2017, however, pieces from neither group (at UPU rates) covered costs in FY 2016. Consequently, the ACR discussion on page 13 (last paragraph; first, fifth, and sixth sentences) has been changed to accurately reflect the revised cost figures, and shaded figures in the table on page 12 (and words in the first sentence thereafter) have been

revised as well.<sup>1</sup> Also within the same discussion on pages 12-13, the phrase “attributable costs” has been replaced with “product costs.”

It bears noting, however, that no one should jump to the conclusion that all categories of Inbound Letters were net losers to the Postal Service in FY 2016 merely because both categories of Inbound Letters *at UPU rates* failed to cover their costs. Certain categories of Inbound Letters under bilateral agreements, which are reported under the broader umbrella of market dominant International Negotiated Service Agreements, did cover their costs in FY 2016. For example, as reported in row 88 of tab “A Pages (md)” in the Excel file Reports(Unified).xls in USPS-FY16-NP2, the category consisting of Inbound Letterpost bilateral agreements with Australia, Canada, China, Hong Kong, Korea, and the Netherlands maintained a healthy cost coverage and provided a substantial positive contribution (cell J88). Looking both at mail received under UPU rates and under bilateral agreements, Inbound Letters in FY 2016 were thus a mix of categories that provided positive contribution, and categories that did not.

Second, the changes on ACR pages 61 and 64 relate to Customized Postage. In the original ACR, these pages indicated that the CRA Report suggested that

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<sup>1</sup> The filing Notice for the Revisions to USPS-FY16-NP2 submitted January 19, 2017, indicated that, as a result of the NP2 revisions, the text of pages 12-13 of the ACR would need to be revised, but the Table on page 12 would not need to be revised. As might be surmised from the attached revisions to the Table on page 12, however, that latter statement proved to be overly optimistic. From the original Table on page 12, the product cost for Inbound Single-Piece First-Class Mail Int’l changed from \$408 (millions) to \$394 (millions). Although the changes emanating from the revisions to USPS-FY16-NP2 are thus not self-contained within Inbound FCM Int’l, the decrease in the costs of that category are exactly offset by increases in the revised ICRA to the costs of the category for International Negotiated Service Agreements. Compare changes in cells F32 and F90 between the revised and unrevised versions of Reports(Unified).xls, tab “A Pages (md)” in USPS-FY16-NP2. Therefore, the broader effects of the ICRA revisions are cost and contribution neutral with respect to International market dominant products overall (cells F92 and J92 of the same tab).

Customized Postage was not covering its costs, but that the Postal Service was still investigating whether revenue for this product had been correctly identified. The subsequent investigation revealed that Customized Postage product revenue indeed was higher than reported, and therefore ACR pages 61 (the table) and 64 (the first paragraph) have been revised to so indicate, and to reflect the correct revenue and cost coverage. The correct FY 2016 revenue shows that, rather than being underwater, the Customized Postage product covered its costs by a wide margin.

The remaining pages of the ACR text remain as originally filed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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proportion of total passthroughs that are over 100 percent, and in terms of the size of those passthroughs.

## **A First-Class Mail**

### **1. Cost, Revenues, and Volumes**

Costs, revenues, and volumes for First-Class Mail products appear below.

Table 1: First-Class Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue (\$million)	Vol Var & Prod Spec	Contribution	Revenue/Piece	Cost/ Piece	Unit Contribution	Cost Coverage
Single-Piece Letters/Cards	19,706	\$9,741	\$5,554	\$4,187	\$0.494	\$0.282	\$0.212	175.39%
Presorted Letters/Cards	39,943	\$15,417	\$4,577	\$10,840	\$0.386	\$0.115	\$0.271	336.83%
Flats	1,570	\$2,202	\$1,531	\$671	\$1.402	\$0.975	\$0.427	143.85%
Parcels	254	\$711	\$588	\$123	\$2.800	\$2.315	\$0.485	120.93%
First-Class Mail Fees		\$137						
Total First-Class Domestic Mail (incl. fees)	61,473	\$28,207	\$12,249	\$15,957	\$0.459	\$0.199	\$0.260	230.3%
Outbound Single-Piece First-Class Mail Int'l	172	\$262	\$155	\$107	\$1.522	\$0.900	\$0.622	169.06%
Inbound Single-Piece First-Class Mail Int'l	392	\$266	\$394	-\$128	\$0.680	\$1.006	-\$0.326	67.59%
Total First-Class Mail	62,037	\$28,735	\$12,798	\$15,937	\$0.463	\$0.206	\$0.257	224.52%

As shown above, with the exception of Inbound Single-Piece Letter Post, all First-Class Mail products covered their product costs in FY 2016, with most of them contributing significantly to institutional costs. This comports with the historical role of First-Class Mail as providing the highest contribution to institutional costs of all mail classes. The trend of declining First-Class Mail volume continues, albeit at a slowing rate: 6.6 percent in FY 2010, 6.4 percent in FY 2011, 5.6 percent in FY 2012,

4.2 percent (or 2.9 billion pieces) in FY 2013, 3.3 percent (2.2 billion pieces) in FY 2014, 2.1 percent (1.4 billion pieces) in FY 2015 and 1.9 percent (1.2 billion pieces) in FY 2016.

The cost coverage for First-Class Mail Parcels is a healthy 120.93 percent. Revenue per-piece increased from \$2.722 in FY 2015 to \$2.800 in FY 2016 while the cost per-piece declined from \$2.430 to \$2.315, once again producing a relatively significant increase in cost coverage from 112.0 percent to 120.93 percent.

The failure of Inbound Letter Post from Transition Countries to cover its product costs stems from the product's unique pricing regime. The Postal Service does not independently determine the prices for delivering foreign origin mail. Rather, these prices are set according to a Universal Postal Union (UPU) terminal dues formula established in the Universal Postal Convention. The formula for Inbound Letter Post from Transition Countries is based on a flat rate per kilogram, instead of on actual costs. Although the terminal dues formula for Inbound Letter Post from Target Countries is based on a percentage of the one-ounce retail Single-Piece First-Class Mail Letter price and the six-ounce First-Class Mail Flat price, which better reflect actual costs, Inbound Letter Post from Target Countries did not cover its product costs in FY 2016 either. The Postal Service has been collaborating with other federal agencies, including the Department of State, which has lead responsibility for representation of the United States in the UPU, to improve cost coverage on inbound international Letter Post mail. Based on outcomes at the UPU Istanbul Congress, the Postal Service expects significant increases in Inbound Letter Post terminal dues revenues based on the new Convention cycle effective in January 2018. In the meantime, in calendar year 2017,

## E. Special Services

### 1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Special Services appear below.

Table 6: Special Services Volume, Revenue and Cost by Service/Product								
Service/Product	Volume (Million)	Revenue (\$Million)	Volume Variable and Product Specific Costs (\$Million)	Contribution (\$Million)	Revenue / Piece (\$)	Cost / Piece (\$)	Unit Contri- bution (\$)	Cost Coverage
Certified Mail	197.8	670.5	521.1	149.4	3.39	2.63	0.76	128.67%
COD	0.2	2.0	4.9	(2.9)	10.07	24.51	(14.45)	41.07%
Insurance	15.3	76.9	42.8	34.1	5.01	2.79	2.22	179.59%
Registered Mail	2.0	31.6	16.3	15.4	15.72	8.07	7.64	194.67%
Stamped Envelopes	N/A	9.1	9.5	(0.4)	N/A	N/A	N/A	95.49%
Stamped Cards	N/A	0.6	0.3	0.4	N/A	N/A	N/A	238.77%
Other Ancillary Services	N/A	447.5	206.8	240.7	N/A	N/A	N/A	216.36%
Total Ancillary Services	N/A	1,238.3	801.7	436.5	N/A	N/A	N/A	154.45%
Int'l Ancillary Services	28.9	43.3	43.7	(0.4)	1.50	1.51	(0.01)	99.16%
Caller Service	N/A	94.4	23.1	71.2	N/A	N/A	N/A	407.73%
Address Management Services	N/A	16.7	6.8	5.3	N/A	N/A	N/A	246.38%
Credit Card Authentication*	16.6	16.9	1.7	15.3	1.02	0.10	0.92	1004.70%
Customized Postage	-	0.7	0.1	0.6	N/A	N/A	N/A	929.43%
Money Orders	90.3	156.4	116.7	39.7	1.73	1.29	0.44	133.99%
Post Office Box Service	N/A	284.0	229.6	54.4	N/A	N/A	N/A	123.70%
Stamp Fulfillment Services	N/A	3.7	4.3	(0.5)	N/A	N/A	N/A	87.30%
Total Special Services Mail	N/A	1,853.7	1,227.6	626.0	N/A	N/A	N/A	150.99%

\*See USPS-FY16-NP26 for cost adjustments after revenue-sharing with third-party partners.

### 2. Discussion of Low Cost Coverages

Three special services failed to cover their costs in FY 2016: COD, International Ancillary Services, and Stamp Fulfillment Services. Also, the revenue reported in the

### **Customized Postage**

The Postal Service investigated Customized Postage records and determined revenue was being underreported for FY 2016. Two customers paid the annual participation fee and provided more than enough revenue (\$650,000) to cover costs.

### **Stamped Envelopes**

As discussed in the Postal Service's response to ChIR No. 2, Question 4(c) in Docket No. ACR2015, filed January 15, 2016, Stamped Envelope revenue as reported in the CRA does not include revenue from Personalized Stamped Envelope premium option and shipping fees. When these revenues are added to CRA revenue for Stamped Envelopes, revenue increases to \$13.1 million, resulting in a 137 percent cost coverage. Please see the Stamped Envelope billing determinants in USPS-FY16-4.

### **F. Negotiated Service Agreements**

There was one domestic market dominant Negotiated Service Agreement (NSA) in effect in FY 2016: PHI Acquisitions, Inc. ("Potpourri"). Full information regarding the Potpourri NSA appears in USPS-FY16-30. The Potpourri NSA was implemented in Q4 of FY 2014. There were no acquisition or divestiture activities by PHI during Agreement Year 2, and therefore, no volume and threshold impact. From a fiscal year perspective, Potpourri had FY 2016 NSA volume of 227,868,254 pieces, total after rebate revenue of \$53.8 million, and costs of \$49.2 million, resulting in a cost coverage of 109.4 percent. The volume-based agreement earned a rebate on eligible Standard Mail volume of approximately \$2.215 million during FY2016.